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SUBJECT: Nova Scotia's Emera Inc.: A Unique Energy Entity Poised for Growth in New England and Beyond

REF: HALIFAX 0002 AND PREVIOUS

11. Sensitive, but unclassified. Not for Internet distribution - please protect.

12. (SBU) INTRODUCTION/SUMMARY: Consul General met recently with James Spurr, a senior executive with Emera Inc. ([www.emera.com](http://www.emera.com)), an investor-owned, diversified energy company that owns Nova Scotia's electricity monopoly, other electric utilities, and interests in natural gas pipelines. Emera's assets now total \$(Can.) 5.2 billion, but Spurr and his colleagues want to diversify and expand, focusing on its established presence in New England and the Caribbean. Closer to home, Emera could also have a role in transmitting power from Labrador's Lower Churchill project, although this idea comes with some trepidation including the spirit of the negotiations with the Government of Newfoundland-Labrador and the impact of the sale of New Brunswick Power to Hydro Quebec. Spurr also commented on low natural gas prices and the effect that this could have on further developing Nova Scotia offshore sector as well as the impact on regional energy giant Irving. END  
INTRODUCTION/SUMMARY

Emera in Expansion Mode: New England and the Caribbean Target Areas

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13. (U) Spurr, who has had a long career in both the Nova Scotia provincial government and the private energy sector, provided an overview of Halifax-based Emera and how it has become a successful investor-owned company in a region dominated by provincially-owned utilities. Emera's core business strategy is to diversify and expand its interests with a simple goal in mind - increasing the profits for its shareholders. Along with its anchor utility, Nova Scotia Power Inc., Emera also owns the Bangor Hydro Electric Company, a utility in eastern Maine that it acquired in 2001. It also has a 50-percent ownership in Bear Swamp, a hydro-electric facility in Massachusetts. Spurr commented that these holdings, with Emera's stake in natural gas pipelines going into New England, make his company an important component in a more integrated northeast energy market. A secondary target area for expansion is in the Caribbean where Emera already has holdings in St. Lucia and the Bahamas.

Emera and the Lower Churchill: "Are we being used here?"

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14. (SBU) Closer to home Spurr talked about another possible venture for Emera: transmitting power from the proposed Lower Churchill River project in Labrador to New England. Nova Scotia and Newfoundland-Labrador (N-L) have an MOU to explore this option which would require the construction of sub-sea and overland power lines to transmit the power. Money issues aside, there would be technological challenges to overcome in this scenario. However, Spurr emphasized that with Emera's experience in dealing with transmission systems, natural gas pipelines and its knowledge of regulatory processes, it would not be an impossible feat. The unknown factor, as Spurr explained, is N-L Premier Danny Williams. Spurr explained that N-L had been the victim of bad resource deals in the past which have left Williams very cautious if not suspicious in his business negotiations. Given that legacy, Spurr remarked that he and his senior colleagues are equally cautious in dealing with the premier, with knowledge it makes more financial sense for N-L to do a deal with Quebec than with them. In fact, Spurr indicated he wouldn't be surprised if Williams ended up doing just that, and leaving Spurr and colleagues to speculate that Williams might be using them to exert more pressure on Quebec to offer a better deal for N-L.

The NB Power-Hydro Quebec Deal: "A Grave Political Misstep"

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15. (SBU) Also with Quebec, Spurr commented on the issue of the pending sale of New Brunswick Power to Hydro Quebec, a development which would have ramifications for Emera in delivering Churchill power to the U.S. market. For that reason Spurr came out to endorse Nova Scotia Premier Dexter's demands that his province and N-L get a guaranteed transmission corridor through New Brunswick should the deal be ratified. As an aside, Spurr pondered why New Brunswick Premier Shawn Graham took the bold step in trying to sell the heavily indebted utility. While Spurr considered the move to be a smart one economically, politically, he termed it a grave misstep, pondering why advance polling that would have predicted the adverse reaction had not been undertaken. Spurr predicted the Graham government would not survive this political storm, and as the CG heard on a January 8 trip to New Brunswick, there are those strongly urging the Premier to do some major rethinking to avoid losing his September 2010 re-election bid. In fact, well-placed New Brunswickers told the CG they believe the Premier may be forced to abandon the deal altogether. Also with this issue, Spurr said Emera has no fears of Hydro Quebec targeting its NSPI for a takeover bid, explaining that there were strict, legislative measures that prevent outside interests from buying up a majority of the utility's shares.

Negative Tones: Low Gas Prices and Trouble at Irving?

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16. (SBU) With Emera's 12.9 percent share in the pipeline that transports natural gas from offshore Nova Scotia into New England, Spurr was able to provide some insight into how he saw the effect that low gas prices were having on Nova Scotia's offshore natural gas industry. Specifically, he pondered how this situation was affecting Nova Scotia's second natural gas development, the Deep Panuke project. He said for now, developer Encana is sticking by its original plan to bring the project on stream by late 2010 or early 2011. However, he feared that future exploration and development could be impacted by a prolonged recovery in prices. Spurr also went on to ponder how the powerful Irving empire was dealing with the lower prices. He reported Irving had been quick to sell off its Bayside natural gas plant in New Brunswick to Emera at a price which Spurr said his company never thought possible. While Spurr acknowledged the Bayside plant has had serious problems

with its turbines, Emera believed they were not insurmountable. This led him to question if Irving's fiscal situation might be deteriorating.

COMMENT: Emera Fine Tuning Its Growth Strategy

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17. (U) As Spurr illustrated by his overview of Emera's holdings and business plans, it appears shareholders are pushing the company to expand well beyond its Nova Scotia borders. In this introductory meeting, Spurr pledged to follow-up with expected implications for the New England's energy market. In the short term, he will also keep post appraised of how he sees unfolding events in New Brunswick, N-L and Quebec having an impact on how Emera might structure this growth strategy. After all, unlike its provincially-owned counterparts in the neighboring provinces, Emera's growth is not confined to its own province. Instead, the company plans to expand to areas that promise the best returns to its shareholders, not what might be best politically. END COMMENT  
SMITH